

**KINGMAN AIRPORT AUTHORITY, INC.**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2010**

**KINGMAN AIRPORT AUTHORITY, INC.  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Kingman Airport Authority, Inc.  
Kingman, Arizona

We have audited the accompanying financial statements of the business-type activities of the Kingman Airport Authority, Inc. (Authority) as of and for the year ended June 30, 2010, which collectively comprise the Kingman Airport Authority, Inc.'s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Kingman Airport Authority, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Kingman Airport Authority, Inc., as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2010 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 - 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*LarsonAllen LLP*

**LarsonAllen LLP**

Mesa, Arizona  
December 31, 2010

**KINGMAN AIRPORT AUTHORITY, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2010**

We (the Kingman Airport Authority, Inc. (Authority)) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2010. The intended purpose of Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes, that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes, which will help to determine if our financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impacts on our debt and operation.

### **FINANCIAL HIGHLIGHTS**

- ◆ The assets of the Kingman Airport Authority, Inc. exceeded its liabilities at the close of the most recent fiscal year by \$23,334,101 (net assets). Total net assets include \$20,802,727 in capital assets net of related debt and \$2,531,374 in unrestricted assets.
- ◆ The Kingman Airport Authority, Inc.'s operations produced an operating loss of \$1,567,289 for the fiscal year. Although much of this loss can be attributable to non-cash depreciation expense on assets that were contributed by the federal government or acquired with the aid of grants, the Authority still relies on revenue from the building space and hangars that are continually leased to other parties.
- ◆ During the year total net assets increased by \$4,069,941. This increase was mainly due to large capital contributions received during 2009-10.
- ◆ Lease revenues increased by 5% (\$19,987) to \$466,789.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis serves to introduce the Authority's basic financial statements. The Authority's basic financial statements have two components: 1) fund financial statements, and 2) notes to the basic financial statements. Separate government-wide financial statements are not presented since the Authority has only one enterprise fund.

#### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Kingman Airport Authority, Inc., like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Unlike most other governments, which have multiple funds, all of the Authority's activities are business-type activities and are accounted for in a single proprietary fund.

#### **Proprietary Funds**

The Kingman Airport Authority, Inc. maintains its accounting records in a single enterprise fund. An *Enterprise fund* is a type of proprietary fund used to report *business-type activities*.

The basic proprietary fund financial statements can be found on pages 8 - 10 of this report

**KINGMAN AIRPORT AUTHORITY, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2010**

The *statement of net assets* presents information on the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses and changes in fund net assets* presents information on how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

**Notes to Basic Financial Statements**

The notes to basic financial statements (pages 11 - 19) provide additional information that is essential to a full understanding of the data provided in the fund financial statements and should be read with the financial statements.

**FINANCIAL ANALYSIS**

Net assets may serve as useful indicators of a government's financial position. At the end of the fiscal year, the Kingman Airport Authority, Inc.'s assets exceeded liabilities by \$23,334,101.

Airports are capital-intensive enterprises. Approximately 89% of the Authority's net assets are invested in capital assets, less any related debt used to acquire those assets that is still outstanding. The Authority uses these assets to provide aviation access and services to the flying public and the surrounding community; consequently, these assets are not available for future spending. Although, the Authority's investment in capital assets is reported net of related debt, the resources needed to pay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Table A-1  
Net Assets**

	2010	2009	% Change
Current and Other Assets	\$ 2,764,808	\$ 2,522,789	9.6 %
Capital Assets, Net of Accumulated Depreciation	21,192,175	17,277,588	22.7
Total Assets	<u>23,956,983</u>	<u>19,800,377</u>	
Long-Term Liabilities	319,837	389,202	(17.8)
Other Liabilities	303,045	147,015	106.1
Total Liabilities	<u>622,882</u>	<u>536,217</u>	
Net Assets:			
Invested in Capital Assets, Net of Related Debt	20,802,727	16,821,961	23.7
Unrestricted	2,531,374	2,442,199	3.7
Total Net Assets	<u>\$ 23,334,101</u>	<u>\$ 19,264,160</u>	21.1

Net assets increased by \$4,069,941, or 21% from the previous fiscal year-end. This was primarily due to increased capital contributions received during the fiscal year.

**KINGMAN AIRPORT AUTHORITY, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2010**

**Business-Type Activities**

All of the Authority's activities are classified as business-type activities. At the end of the current fiscal year, the Kingman Airport Authority, Inc. is able to report a positive balance in its net assets.

**Table A-2  
Changes in Net Assets**

	2010	2009	% Change
<b>REVENUES</b>			
Leases	\$ 466,789	\$ 446,802	4.5 %
Capital Grants and Contributions	4,988,661	110,889	4,398.8
Other	1,063,803	400,466	165.6
Total Revenues	<u>6,519,253</u>	<u>958,157</u>	580.4
<b>EXPENSES</b>			
Depreciation	1,169,864	1,126,250	3.9
Other Operating Expenses	1,202,706	1,317,244	(8.7)
Non-operating Expenses	76,742	23,409	227.8
Total Expenses	<u>2,449,312</u>	<u>2,466,903</u>	(0.7)
<b>CHANGE IN NET ASSETS</b>	4,069,941	(1,508,746)	(369.8)
Net Assets - Beginning of Year	19,264,160	20,772,906	(7.3)
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 23,334,101</u>	<u>\$ 19,264,160</u>	21.1

Lease revenues increased by \$19,987 due to increased occupancy and rental rates.

Capital grants and contributions increased by \$4,877,772 mainly due to the increased funding from the Federal Aviation Administration for the Authority's capital improvements.

Other revenues increased by \$663,337 primarily as a result of the increase in land sales.

The Authority's expenses decreased by less than 1%. This decrease was not significant.

**BUDGETARY HIGHLIGHTS**

The Authority prepares a budget annually which is submitted to the Board of Directors for approval during the spring of each year. The budget is used as a management tool; it is not a legally binding document. The budget and annual comparisons of actual to budget is prepared on the budgetary basis of accounting. There were no significant changes to the budget during the year. Although the budget is not legally adopted, it is an important management tool used throughout the fiscal year. See page 20 for a presentation of the budget to actual comparison for the fiscal year.

**KINGMAN AIRPORT AUTHORITY, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2010**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The Kingman Airport Authority, Inc.'s capital assets as of June 30, 2010 amount to \$21,192,175 (net of accumulated depreciation), a net increase of 23%. The capital assets include runways and taxiways; buildings; improvements; machinery and equipment. A large majority of these assets were contributed to the airport directly or were purchased with the aid of federal and state grants.

Major capital asset events during the current fiscal year included the following:

- ◆ North/South Apron Improvements.
- ◆ Terminal Design.
- ◆ Signage.

The following table provides a breakdown of the capital assets of the Kingman Airport Authority, Inc. at June 30, 2010 and 2009.

**Table A-3  
Capital Assets  
(Net of Accumulated Depreciation)**

	Business-Type Activities	
	2010	2009
Land Improvements	\$ 16,811,242	\$ 12,737,303
Building and Improvements	3,441,711	3,602,304
Furniture, Machinery, and Equipment	440,307	503,780
Construction in Progress	498,915	434,201
Total Capital Assets	<u>\$ 21,192,175</u>	<u>\$ 17,277,588</u>

**Long-Term Obligations**

At the end of the current fiscal year, the Kingman Airport Authority, Inc. had total long-term obligations outstanding of \$389,448. The Authority's debt consists of two separate bank notes with payments made monthly. The Authority reduced its debt by \$66,179 by making regularly scheduled principal and interest payments.

The following schedule shows the outstanding obligations of the Kingman Airport Authority, Inc. (both current and long-term) as of June 30, 2010 and 2009. Further detail on the Kingman Airport Authority, Inc.'s outstanding obligations may be found in Note 3.C. on pages 16 and 17.

**KINGMAN AIRPORT AUTHORITY, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2010**

**Table A-4  
Outstanding Obligations**

	<u>2010</u>	<u>2009</u>
Notes Payable	<u>\$ 389,448</u>	<u>\$ 455,627</u>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The general economy in Kingman is flat, as the community is experiencing very little new construction. Home sales are improving but consumer confidence remains reserved. Job creation in the airport industrial park is only through the attraction of new opportunities rather than local business expansion.

Kingman continues to attract interest from East Coast and Midwest companies looking to expand operations to keep up with the growth in the Southwest, however the number of inquiries is less than those experienced last year. Kingman's location makes the community suited logistically for a manufacturer to service southern California, Arizona, Nevada, as well as parts of Utah and New Mexico overnight. Proceeds from land sales within the industrial park as a result of growth will be utilized to construct basic infrastructure and capital improvements projects for the airfield and industrial park.

Lease revenues and user fees will continue to fund the Authority's operations. Lease opportunities are being pursued and encouraged along with promoting land sales. New leases include an automatic annual adjustment of 3% of the base rate effective July 1, of each year, and as older leases expire, they will be replaced with language incorporating automatic adjustments as well.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Kingman Airport Authority, Inc.'s finances for all of those with an interest in the government's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to:

Kingman Airport Authority, Inc.  
Accounting Department  
7000 Flightline Drive  
Kingman, AZ 86401  
928-757-2134

**KINGMAN AIRPORT AUTHORITY, INC.**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2010**

	<u>Business-Type Activities - Enterprise Fund</u>
<b>Assets</b>	
Current Assets	
Cash and Cash Equivalents	\$ 2,638,053
Receivables, Net	
Accounts Receivable	75,193
Intergovernmental Receivable	51,562
Total Current Assets	<u>2,764,808</u>
Noncurrent Assets	
Capital Assets	
Non-Depreciable	498,915
Depreciable (Net)	20,693,260
Total Noncurrent Assets	<u>21,192,175</u>
Total Assets	<u><u>\$ 23,956,983</u></u>
<b>Liabilities and Net Assets</b>	
Current Liabilities	
Accounts Payable	\$ 187,965
Accrued Wages and Benefits	22,679
Compensated Absences Payable	21,790
Current Maturities of Notes Payable	69,611
Customer Deposit Payable	1,000
Total Current Liabilities	<u>303,045</u>
Noncurrent Liabilities	
Notes Payable, Net of Current Maturities	<u>319,837</u>
Total Liabilities	622,882
Net Assets	
Invested in Capital Assets, Net of Related Debt	20,802,727
Unrestricted	2,531,374
Total Net Assets	<u>23,334,101</u>
Total Liabilities and Net Assets	<u><u>\$ 23,956,983</u></u>

See accompanying Notes to Financial Statements.

**KINGMAN AIRPORT AUTHORITY, INC.**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2010**

	<u>Business-Type Activities - Enterprise Fund</u>
Operating Revenues	
Leases	\$ 466,789
Intergovernmental	74,351
Airport Usage Fees	264,141
Total Operating Revenues	<u>805,281</u>
Operating Expenses	
Personnel	485,370
Payroll Taxes and Benefits	132,711
Office Expense	15,394
Professional Services	92,917
Maintenance and Repairs	134,828
Motor Pool	17,006
Operational Expense	324,480
Depreciation	1,169,864
Total Operating Expenses	<u>2,372,570</u>
Operating Loss	(1,567,289)
Nonoperating Revenues (Expenses)	
Contributions and Donations	9,541
Interest Revenue	50,343
Application Fees	7,000
Miscellaneous Revenues	5,027
Interest Expense	(19,312)
Land Sales	653,400
Loss on Disposal of Assets	(57,430)
Total Nonoperating Revenues (Expenses)	<u>648,569</u>
Income (Loss) Before Capital Contributions and Transfers	(918,720)
Capital Contributions	<u>4,988,661</u>
Change in Net Assets	4,069,941
Total Net Assets, Beginning of Year	19,264,160
Total Net Assets, End of Year	<u><u>\$ 23,334,101</u></u>

See accompanying Notes to Financial Statements.

**KINGMAN AIRPORT AUTHORITY, INC.**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2010**

	<u>Business-Type Activities - Enterprise Fund</u>
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 826,362
Payments to Suppliers	(578,905)
Payments to Employees	(471,957)
Customer Deposits Received	1,000
Net Cash Flows Used for Operating Activities	<u>(223,500)</u>
Cash Flows from Capital and Financing Activities:	
Contributions and Donations	9,541
Application Fees	7,000
Miscellaneous Revenues	5,027
Capital Grants and Contributions	4,985,111
Purchases of Capital Assets	(5,141,881)
Principal Paid on Notes Payable	(66,179)
Interest Paid on Notes Payable	(19,312)
Proceeds from Sale of Land	653,400
Net Cash Flows Provided from Capital and Related Financing Activities	<u>432,707</u>
Cash Flows from Investing Activities:	
Interest	50,343
Net Cash Flows Provided from Investing Activities	<u>50,343</u>
Net Change in Cash and Cash Equivalents	259,550
Cash and Cash Equivalents, Beginning of Year	<u>2,378,503</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 2,638,053</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED FOR OPERATING ACTIVITIES</b>	
Operating Income (Loss)	\$ (1,567,289)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used for Operating Activities:	
Depreciation	1,169,864
Change in Assets/Liabilities:	
Accounts Receivable	21,081
Accounts Payable	138,431
Accrued Wages and Benefits	8,866
Compensated Absences Payable	4,547
Deposits Payable	1,000
Net Cash Used for Operating Activities	<u><u>\$ (223,500)</u></u>

*See accompanying Notes to Financial Statements.*

**KINGMAN AIRPORT AUTHORITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the Kingman Airport Authority, Inc. (Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Authority's more significant accounting policies follows.

**A. Reporting Entity**

The Kingman Airport Authority, Inc. (Authority) was incorporated in the State of Arizona in July 1992, as a nonprofit corporation. The Authority operates, maintains, and manages the Kingman Airfield and Industrial Park, collectively known as the Airport for the City of Kingman, Arizona. The Authority is administered by the board of directors who are elected by the membership of the Authority.

The Kingman Airport Authority, Inc. was formed by transferring the assets and liabilities of the Mohave County Airport Authority, Inc., which related to the Kingman Airfield and Industrial Park, to the Kingman Airport Authority, Inc. The Authority leases the real property at no cost from the City of Kingman, Arizona under a long term lease. Primary sources of funding for the Authority are rents from subleasing real property, proceeds from the sale of real property located in the Kingman Airport Industrial Park, and grants from other governmental units. Functions financed by the Authority include management, maintenance, and development of the Kingman Airfield and the Kingman Airport Industrial Park. The Authority is considered to be a political subdivision of the State of Arizona, Mohave County and the City of Kingman, Arizona with the responsibility of carrying out the function of airport management.

In evaluating how to define the Authority, for financial reporting purposes, management has identified no potential component units. The decision to include a potential component unit in the reporting entity would have been made by applying criteria set forth by accounting principles generally accepted in the United States of America. Generally, component units are legally separate organizations for which the elected officials of the primary government (i.e., the Authority) are financially accountable. The primary government is financially accountable for a potential component unit if it: appoints a voting majority of the potential component unit's governing body; and, either is able to impose its will on the potential component unit or there is a possibility of the potential component unit to provide specific financial benefits to, or impose specific financial burdens on the primary government.

In addition, a primary government may be financially accountable for a potential component unit even though the potential component unit may have a separately elected governing board, a board appointed by another government, or a jointly appointed board if the potential component unit is fiscally dependent on the primary government (e.g., the primary government must approve the potential component unit's budget, tax rates, etc.). Because no potential component units were identified in defining the Authority's reporting entity, none have been included in the Authority's reporting entity.

**KINGMAN AIRPORT AUTHORITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Government-Wide and Fund Financial Statements**

Government-wide financial statements are not presented, as the Authority only engages in business-type activities. The Authority only has one fund, an enterprise fund. Accordingly, the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows report information for that single enterprise fund only.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The statement of net assets and statement of revenues, expenses and changes in fund net assets are reported using the *economic resource measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Such revenue is subject to review by the funding agency, which may result in disallowance in subsequent periods.

The Authority reports the following proprietary fund:

The *Enterprise Fund* is used to account for operations (a) that are financed and operated in manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for the business-type activities subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**KINGMAN AIRPORT AUTHORITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, and Net Assets or Equity**

**1. Deposits and Investments**

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

State statutes authorize the Authority to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, authorities or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool. Investments are stated at fair value.

**2. Receivables**

All trade receivables are shown net of an allowance for uncollectible receivables. The Authority annually reviews the balance in the reserve account during the budget process to determine if, based on past history, the account is adequate to cover current trade receivables. If judged to be inadequate, an additional amount is budgeted and recorded over the course of the year. Receivables from governments are assumed to be entirely collectible and are not included in this analysis.

**3. Capital Assets**

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest capitalized was calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Land Improvements	10-30 years
Building and Improvements	7-30 years
Furniture, Machinery and Equipment	3-8 years

**KINGMAN AIRPORT AUTHORITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 2    STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

The Authority adopts an annual nonappropriated budget as a management control device. The budget is prepared on the modified accrual basis, which is a different basis of accounting than is used to present the financial statements. (See Note 4.C. for reconciliation).

**NOTE 3    DETAILED NOTES ON ALL FUNDS**

**A. Assets**

**1. Deposits and Investments**

Deposits and investments at June 30, 2010 consist of the following:

Deposits:	
Cash in Bank	\$       182,125
Certificates of Deposit	1,597,154
Investments:	
Money Market Mutual Fund	858,774
Total Deposits and Investments	<u>\$   2,638,053</u>

**Deposits** - The Authority's deposits at June 30, 2010, were entirely covered by federal depository insurance.

**Investments** - The Money Market Mutual Fund is not subject to custodial credit risk.

**KINGMAN AIRPORT AUTHORITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**A. Assets**

**2. Capital Assets**

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ 434,201	\$ 5,124,447	\$ (5,059,733)	\$ 498,915
Capital Assets, Being Depreciated:				
Land Improvements:				
Airfield	10,966,765	5,067,232	(140,582)	15,893,415
Industrial Park	8,991,904	-	-	8,991,904
Buildings and Improvements:				
Airfield	4,332,375	9,935	-	4,342,310
Industrial Park	2,060	-	-	2,060
Furniture, Machinery, and Equipment	842,428	-	(7,600)	834,828
 Total Capital Assets, Being Depreciated	 25,135,532	 5,077,167	 (148,182)	 30,064,517
Accumulated Depreciation for:				
Land improvements:				
Airfield	(4,409,241)	(548,771)	83,151	(4,874,861)
Industrial Park	(2,812,125)	(387,091)	-	(3,199,216)
Buildings and Improvements:				
Airfield	(731,582)	(170,459)	-	(902,041)
Industrial Park	(549)	(69)	-	(618)
Furniture, Machinery, and Equipment	(338,648)	(63,474)	7,601	(394,521)
 Total Accumulated Depreciation	 (8,292,145)	 (1,169,864)	 90,752	 (9,371,257)
 Total Capital Assets, Being Depreciated, Net	 16,843,387	 3,907,303	 (57,430)	 20,693,260
 Business-type Activities Capital Assets, Net	 \$ 17,277,588	 \$ 9,031,750	 \$ (5,117,163)	 \$ 21,192,175

Depreciation expense was charged to functions/programs as follows:

<b>Business-Type Activities:</b>	
Airfield	\$ 782,704
Industrial Park	387,160
Total Depreciation Expense	<u>\$ 1,169,864</u>

**KINGMAN AIRPORT AUTHORITY, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**A. Assets**

**3. Construction Commitments**

The Authority has several active construction projects at June 30, 2010. The projects involve infrastructure, ramp reconstruction and other miscellaneous projects. At fiscal year end the Authority's commitments with contractors were as follows:

Business-type		
Project	Spent-to-date	Remaining Commitment
Apron Ramp	\$ 88,190	\$ -
Flightline Drive	126,648	-
EA Land Release	49,080	220,970
EA For 80 Acres	67,132	18,664
Terminal Design	146,180	52,730
ISCO Sewer Line	21,685	63,562
	<u>\$ 498,915</u>	<u>\$ 355,926</u>

**B. Line of Credit Payable**

The Authority has a line of credit with a local financial institution to provide short-term cash flow up to \$150,000. There was no balance outstanding at June 30, 2010.

**C. Long-Term Obligations**

Notes payable at June 30, 2010, consisted of the following.

Description	Interest Rates (%)	Maturity	Original Issue Amount	Outstanding Principal June 30, 2010
Mohave State Bank Loan	4.90%	06/15/15	\$ 277,726	\$ 159,236
Mission Bank Loan	4.34	07/01/11	278,340	230,212
			<u>\$ 556,066</u>	<u>\$ 389,448</u>

**KINGMAN AIRPORT AUTHORITY, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**C. Long-Term Obligations (Continued)**

Changes in long-term obligations for the year ended June 30, 2010 are as follows:

	<u>July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2010</u>	<u>Due Within One Year</u>
<b>Business-Type Activities</b>					
Notes Payable	<u>\$ 455,627</u>	<u>\$ -</u>	<u>\$ (66,179)</u>	<u>\$ 389,448</u>	<u>\$ 69,611</u>

Debt service requirements on long-term debt at June 30, 2010 are as follows:

	<u>Business-Type Activities</u>	
<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 69,611	\$ 15,320
2012	251,508	5,321
2013	48,381	2,271
2014	19,948	224
	<u>\$ 389,448</u>	<u>\$ 23,136</u>

**NOTE 4 OTHER INFORMATION**

**A. Risk Management**

The Kingman Airport Authority, Inc. is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which it carries commercial insurance. There were no significant reductions in coverage from the prior year and settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. In addition, the Authority is insured by Arizona State Workers Compensation Insurance Fund for potential job-related accidents.

**B. Lease Revenues**

The Authority subleases, under operating leases, certain property and improvements.

The operating leases have varying terms ranging from a month-to-month basis to twenty-five years. Most leases extending over a one-year period contain a rent adjustment based on the consumer price index. Some leases contain an option to renew for a similar term.

**KINGMAN AIRPORT AUTHORITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 4 OTHER INFORMATION (CONTINUED)**

**B. Lease Revenues (Continued)**

<u>Year Ending June 30,</u>	
2011	\$ 19,600
2012	19,600
2013	19,600
2014	4,683
Total minimum future rentals	<u>\$ 63,483</u>

**C. Budgetary Basis of Accounting**

The adopted budget of the Enterprise Fund was prepared on the modified accrual basis. Consequently, the following adjustments are necessary to reconcile budgetary to GAAP basis.

	<u>Enterprise Fund</u>	
	<u>Total Operating Revenues</u>	<u>Total Operating Expenses</u>
Statement of Revenues, Expenses and Changes in Fund Net Assets	\$ 805,281	\$ 2,372,570
Nonoperating Revenues and Expenses	725,311	76,742
Adjustments to Present Data on the Budgetary Basis:		
Additions	4,988,661	5,208,060
Subtractions	<u>-</u>	<u>(1,227,294)</u>
Statement of Revenues, and Expenses - Budget and Actual (Budgetary Basis)	<u>\$ 6,519,253</u>	<u>\$ 6,430,078</u>

**D. Related Party Transactions**

Two of the Authority's board members are employees of the banking institutions in which the Authority transacts business. At June 30, 2010, the deposits in Mohave State Bank totaled \$885,623 and the outstanding note payable was \$159,236. At June 30, 2010, the deposits in Mission Bank totaled \$1,752,430 and the outstanding note payable was \$230,212.

**KINGMAN AIRPORT AUTHORITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 4    OTHER INFORMATION (CONTINUED)**

**E. Retirement Plans**

**Defined Contribution Pension Plan**

The Authority's 401(a) Retirement Plan is a defined contribution pension plan established by the Authority and administered by Nationwide Life Insurance to provide benefits at retirement to all full-time employees of the Authority. At June 30, 2010, there were nine plan members. Plan members are required to contribute 6% of covered salary. The Authority is also required to contribute 6% of covered salary. Plan provisions and contribution requirements are established and may be amended by the Authority's governing board. Covered payroll for the year totaled \$471,764. Employee contributions totaled \$22,937 and employer contributions totaled \$22,937 for the year.

**F. FAA Commitment for Future Improvements**

The Authority is obligated by the Federal Aviation Administration (FAA) to invest an amount equal to the net proceeds of land sales at the Kingman Airport Industrial Park in improvements to and operations of the Kingman Airfield within five years from the date of the sale. The Authority obtained authorization from the FAA during fiscal year 2009-10 to deduct prior year operating expenses from the beginning balance. The amount obligated to be spent for airfield improvements and operations at June 30, 2010, is \$0. In addition, the Authority has an additional amount of \$7,159,748 of prior year operating expenses that can be used to offset future year land sales. The Authority complied with all regulations regarding its sale of land at the Kingman Airfield and Industrial Park during the 2009-10 fiscal year.

Changes in the commitment for future improvements during the year ended June 30, 2010, were as follows:

Balance, Beginning of Year	\$ 1,822,933
Add: Land Sales During Year	653,400
Deduct: Current and Prior Year Operating Expenses	<u>(2,476,333)</u>
Balance, End of Year	<u><u>\$ -</u></u>

**KINGMAN AIRPORT AUTHORITY, INC.**  
**STATEMENT OF REVENUES AND EXPENSES –**  
**BUDGET AND ACTUAL – BUDGETARY BASIS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2010**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenue</b>			
Leases	\$ 448,078	\$ 466,789	\$ 18,711
Intergovernmental Revenue	74,520	74,351	(169)
Contributions and Donations	-	9,541	9,541
Interest Revenue	20,000	50,343	30,343
Application Fees	10,000	7,000	(3,000)
Land Sales	520,000	653,400	133,400
Capital Contributions	6,129,891	4,988,661	(1,141,230)
Miscellaneous Revenues	500	5,027	4,527
Airport Usage Fees	186,450	264,141	77,691
Total Operating Revenues	<u>7,389,439</u>	<u>6,519,253</u>	<u>(870,186)</u>
<b>Operating Expenses</b>			
Personnel	490,000	485,370	4,630
Payroll Taxes and Benefits	126,971	132,711	(5,740)
Office Expenses	22,000	15,394	6,606
Professional Services	161,500	92,917	68,583
Maintenance and Repairs	58,200	134,828	(76,628)
Motor Pool	37,510	17,006	20,504
Operational Expense	340,370	324,480	15,890
Debt Service	18,500	85,491	(66,991)
Capital Outlay	6,615,379	5,141,881	1,473,498
Total Operating Expenses	<u>7,870,430</u>	<u>6,430,078</u>	<u>1,440,352</u>
<b>Excess (Deficiency) of Revenue Over Expenses</b>	<u>\$ (480,991)</u>	<u>\$ 89,175</u>	<u>\$ 570,166</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Kingman Airport Authority, Inc.  
Kingman, Arizona

We have audited the financial statements of Kingman Airport Authority, Inc. (Authority) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 31, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Kingman Airport Authority, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kingman Airport Authority, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kingman Airport Authority, Inc.'s internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described as item 2010-1 in the accompanying schedule of findings and questioned costs, that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Kingman Airport Authority, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Kingman Airport Authority, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Kingman Airport Authority, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of directors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*LarsonAllen LLP*

**LarsonAllen LLP**

Mesa, Arizona  
December 31, 2010

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
Kingman Airport Authority, Inc.  
Kingman, Arizona

### **Compliance**

We have audited Kingman Airport Authority, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Kingman Airport Authority, Inc.'s major federal program for the year ended June 30, 2010. Kingman Airport Authority, Inc.'s major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Kingman Airport Authority, Inc.'s management. Our responsibility is to express an opinion on Kingman Airport Authority, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kingman Airport Authority, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Kingman Airport Authority, Inc.'s compliance with those requirements.

In our opinion, Kingman Airport Authority, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2010.

### Internal Control over Compliance

Management of Kingman Airport Authority, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Kingman Airport Authority, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Kingman Airport Authority, Inc.'s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of directors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*LarsonAllen LLP*

**LarsonAllen LLP**

Mesa, Arizona  
December 31, 2010

**KINGMAN AIRPORT AUTHORITY, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010**

**SECTION I – SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

Type of auditor's report issued:

*Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes   X   no
- Significant deficiency(ies) identified not considered to be material weakness?   X   yes \_\_\_\_\_ none reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ yes   X   no

***Federal Awards***

Internal control over major program:

- Material weakness(es) identified? \_\_\_\_\_ yes   X   no
- Significant deficiency(ies) identified not considered to be material weakness? \_\_\_\_\_ yes   X   none reported

Type of auditor's report issued on compliance for major program:

*Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?

\_\_\_\_\_ yes   X   no

Identification of major program:

CFDA Numbers

Name of Federal Program or Cluster

20.106

Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

\_\_\_\_\_ yes   X   No

**KINGMAN AIRPORT AUTHORITY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2010**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

2010-1	Condition/ Context	As part of the audit, management requested we prepare draft financial statements and related note disclosures to the financial statements.
	Criteria	Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements in accordance with U.S. generally accepted accounting principles.
	Effect	The design of the controls over the financial reporting process would affect the ability of the Authority to report their financial data consistently with the assertions of management in the financial statements.
	Cause	The Authority has a limited number of personnel.
	Recommendation	Should the Authority elect to establish the "full oversight" of the financial statement preparation, we suggest management establish effective review policies and procedures, including but not limited to, the following functions: reconciling general ledger amounts to the draft financial statements; review of all supporting documentation and explanations for journal entries proposed by us and approve the entries; review the adequacy of financial statement disclosures by completing a disclosure checklist; review and approval of schedules and calculations supporting the amounts included in the notes to the financial statements; apply analytic procedures to the draft financial statements; and perform other procedures considered necessary by management.
	Response	We acknowledge the fact that the auditor's expertise was utilized for preparing financial statements as the result of cost-benefit assessment by the Authority. In addition, it should be noted that the financial statements were reviewed for overall appropriateness by Management subsequent to auditor preparation.
	Contact Person	Brenda Chastain, Executive Director of Corporate Administration.

**KINGMAN AIRPORT AUTHORITY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2010**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None noted.

**SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

None noted.

**KINGMAN AIRPORT AUTHORITY, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2010**

<u>Grantor Agency</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Transportation			
Airport Improvement Program	20.106	3-04-0021-018	\$ 20,558
Airport Improvement Program	20.106	3-04-0021-021	20,843
Airport Improvement Program	20.106	3-04-0021-022	64,294
Airport Improvement Program ARRA	20.106	3-04-0021-023	4,834,445
Airport Improvement Program	20.106	3-04-0021-024	48,521
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 4,988,661</b>

Note: This schedule is prepared on the accrual basis of accounting.